

**BOWLING GREEN INDEPENDENT
SCHOOL DISTRICT**

FINANCIAL STATEMENTS

June 30, 2003

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Bowling Green Independent School District
Bowling Green, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Bowling Green Independent School District*** (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting

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Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*, Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 2, 2003 on our consideration of **Bowling Green Independent School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 16 and 58 through 59 are not a required part of the basic financial statements but are supplementary information required by *Governmental Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Bowling Green Independent School District's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The additional

Kentucky State Committee for School District Audits
Members of the Board of Education
Bowling Green Independent School District

information shown on pages 61 through 71 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAs, PSC

Bowling Green, Kentucky
September 2, 2003

Required Supplementary
Information

Management's Discussion
And Analysis



**BOWLING GREEN INDEPENDENT PUBLIC SCHOOL
DISTRICT
BOWLING GREEN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
YEAR ENDED JUNE 30, 2003**

As management of the Bowling Green Independent Public School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

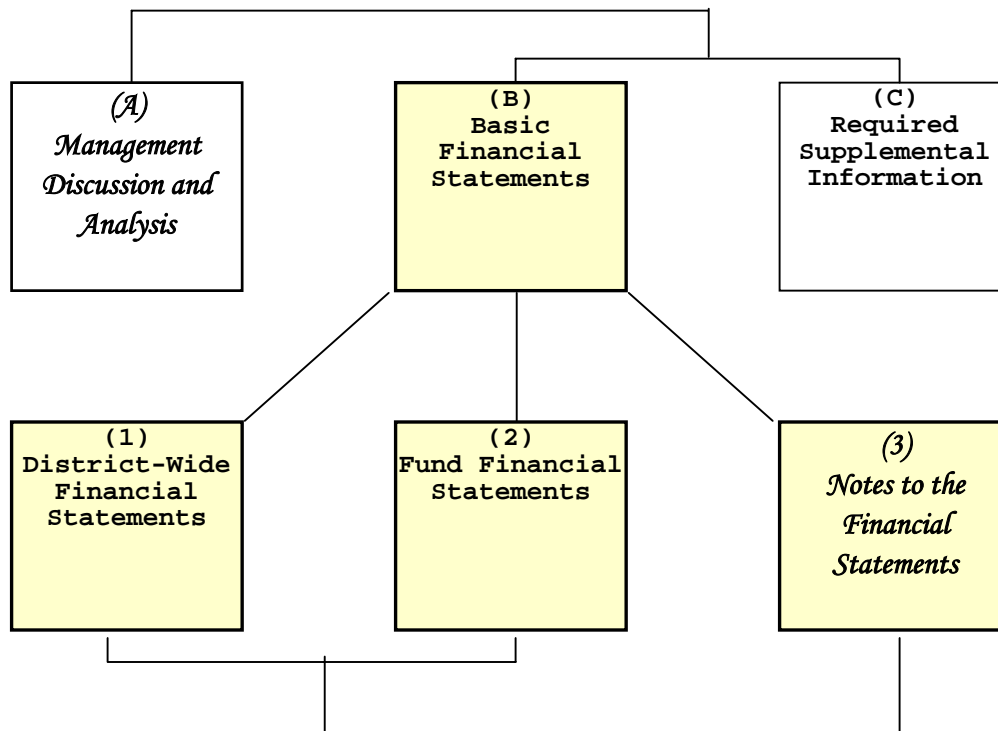
- The beginning General Fund fund balance for the District was \$2,194,380. The ending General Fund fund balance was \$1,896,444. The major reason for the decline of \$297,936 in the fund balance was the SEEK adjustment. SEEK is an acronym for Support Educational Excellence in Kentucky and is the state formula for funding schools. This adjustment was made after implementing a state mandated salary increase. The Seek base was rolled back to give an increase of .49% after we were mandated to give a 2.7% raise. This meant a \$285,000 reduction in SEEK revenue to the district. Also contributing to the declining cash balance, were declining tax revenues from the utility and PSC property taxes. Utility tax revenue decreased by \$133,507 and PSC property tax revenue decreased by \$72,386.
- The beginning Building Fund fund balance for the District was \$5,879,884. The ending Building Fund fund balance was \$6,907,979. The major reasons for the increase in the fund balance were the proceeds from the sale of the old junior high property (\$776,000) and a prior years tax settlement of \$265,000 was deposited into the Building Fund. Approximately \$4.5 million will be used soon in the building of a new elementary school.
- The Annual Financial Report will show the General Fund with a large increase in state revenue due a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement is included in the district's revenues and expenditure for the first time. The revenue is recorded as "ON BEHALF PAYMENTS". This amount was \$3,101,384. The expenditure of this money is recorded in different functions. Instruction and School Food benefits expenditures increased by \$2,768,861, Transportation benefits is increased by \$91,442, and District Administrative Support benefits is increased by \$241,081.
- Bonds were issued for the district to renovate facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The issuance of these bonds caused the District's total debt to increase by \$ 2,205,000 during the current fiscal year. The performance contract calls for savings in utility costs to balance the annual cost of paying off the bonds.

- Also, consistent with the district's long-range facilities plan, the District made progress toward reducing the number of elementary school centers from six to four by closing one elementary school and beginning the process of building a new center to replace two existing ones. This should have a positive impact on district finances by reducing the recurring costs by approximately \$350,000.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Bowling Green Independent Public School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section)[pages 4-15], (B) the basic financial statements [pages 16-19], and (C) required and other supplemental information [pages 52-64]. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements [pages 20-25], 2) fund financial statements [pages 26-31], and 3) notes to the financial statements [pages 31-54] This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds

with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during 2003?” The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the School District’s property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the School District is divided into two distinct kinds of activities:

- **Government Activities** – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service is reported as business activities. These activities are funded thru fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$21,662,759 as of June 30, 2003.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding (\$11,239,751). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The only proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Bowling Green Independent Public School District are the general fund, special revenue (grants), building fund (FSPK), and the construction fund. The unused sick leave trust fund is another governmental fund of the District.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The only proprietary fund is our food service operations.

Fiduciary Funds – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity balances at year-end totaled \$276,836.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2003 *

	Governmental Activities	Proprietary Business-Type Activities	Total
Current and Other Assets	\$ 12,139,346	\$ 343,065	\$ 12,482,411
Capital Assets	27,142,472	129,894	27,272,366
Total Assets	\$ 39,281,818	\$ 472,959	\$ 39,754,777
Long Term Liabilities	\$ 16,180,715	\$ 21,133	\$ 16,201,848
Other Liabilities (current)	1,872,042	18,128	1,890,170
Total Liabilities	\$ 18,052,757	\$ 39,261	\$ 18,092,018

Net Assets

Investment in capital assets (net of debt)	\$ 11,109,857	\$ 129,894	\$ 11,239,751
Restricted	2,413,348	0	2,413,348
Unrestricted Fund	7,705,856	303,804	8,009,660
Total Net Assets	\$ 21,229,061	\$ 433,698	\$ 21,662,759

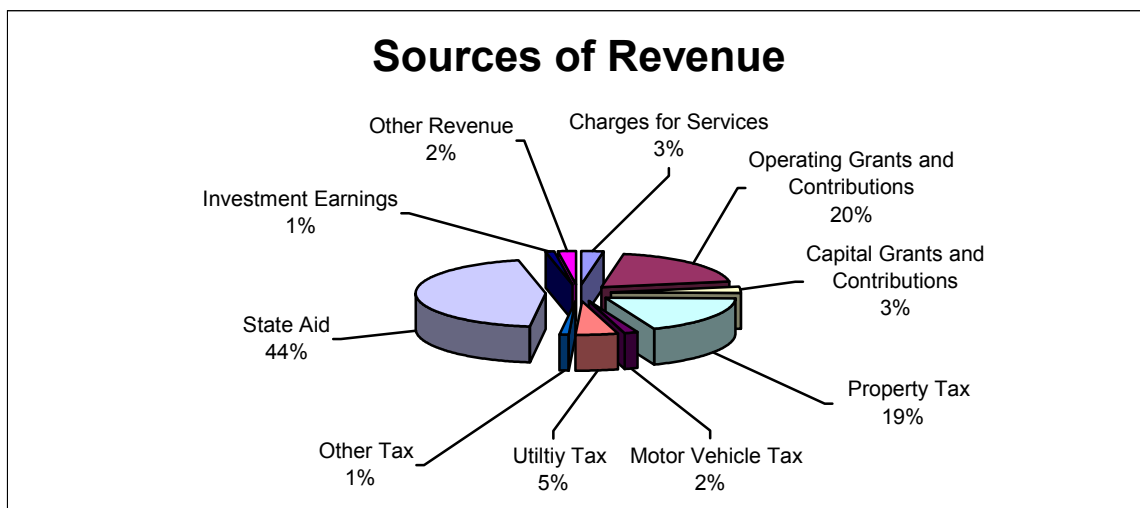
* Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

At year-end assets exceeded liabilities by \$21,662,759.

Changes in Net Assets for the period ending June 30, 2003*

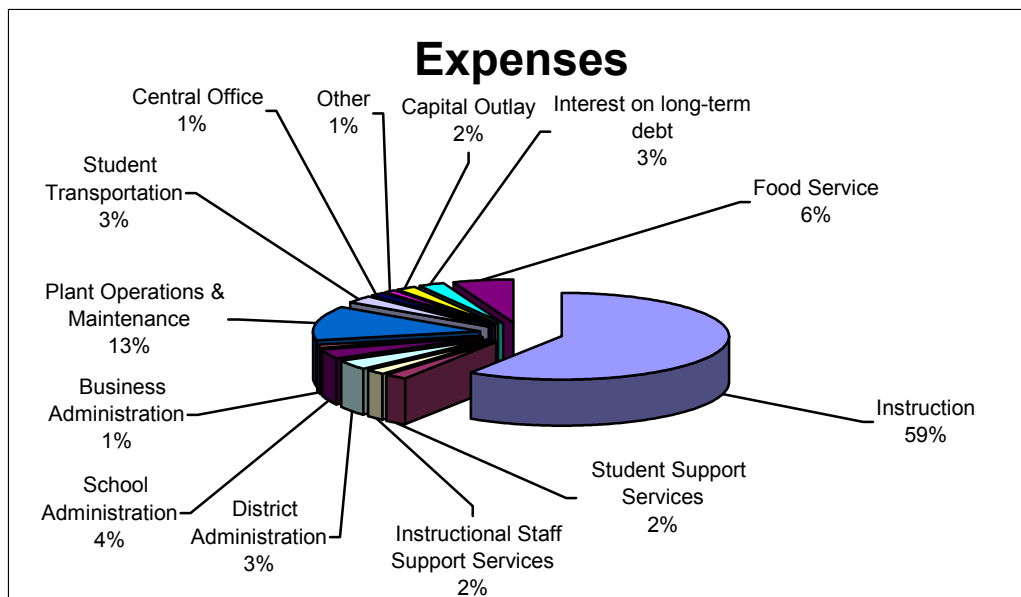
	Government Activities	Proprietary Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$176,169	\$645,746	\$821,915
Operating Grants and Contributions	\$4,671,191	\$1,215,876	\$5,887,067
Capital Grants and Contributions	\$901,616		\$901,616
General Revenue			
Taxes			
Property Tax	\$5,587,073		\$5,587,073
Motor Vehicle Tax	\$484,112		\$484,112
Utility Tax	\$1,563,697		\$1,563,697
Other Tax	\$386,217		\$386,217
State Aid	\$13,433,172		\$13,433,172
Investment Earnings	\$274,607	\$3,268	\$277,875
Other Revenue	\$708,531		\$708,531
Total Revenues			\$30,051,275

* Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.



Program Expenses	
Instruction	\$17,682,777
Support Services	
Student Support Services	\$657,104
Instructional Staff Support Services	\$605,475
District Administration	\$1,044,457
School Administration	\$1,052,486
Business Administration	\$376,886
Plant Operations & Maintenance	\$3,808,691
Student Transportation	\$841,483
Central Office	\$371,166
Other	\$334,856
Capital Outlay	\$552,395
Interest on long-term debt	\$751,184
Food Service	\$1,770,646
Total Expenses	\$29,849,606

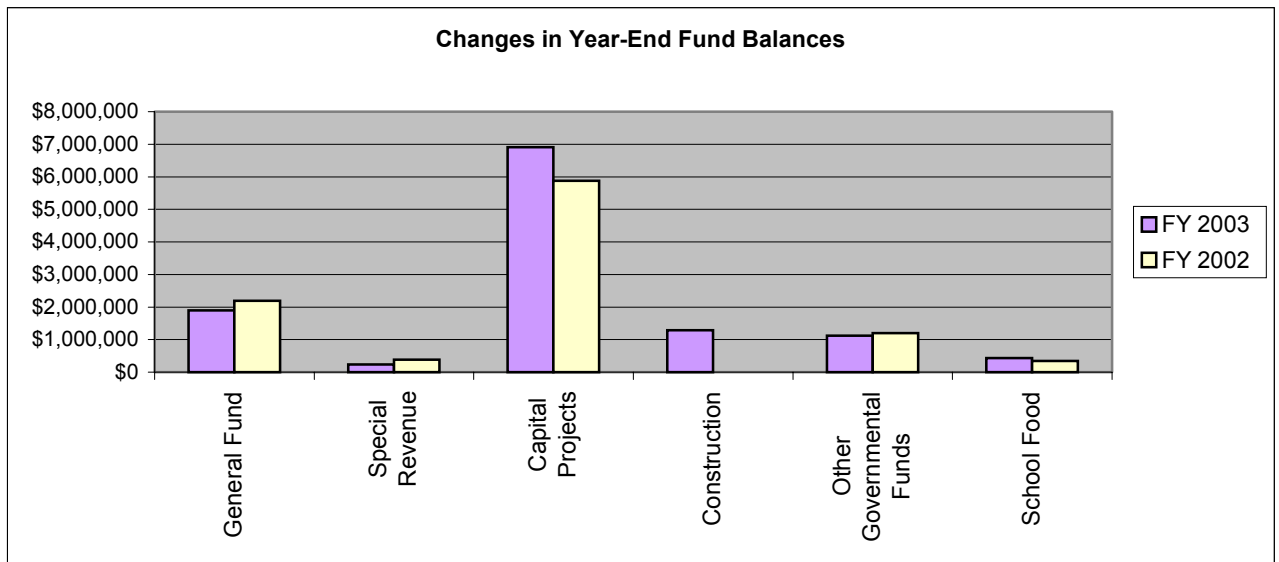
* Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.



- The District's total revenues were \$30,051,275 and the total expenditures were \$28,849,275. Revenues exceeded expenditures by \$201,669.
- State revenues accounted for 44% and local taxes accounted for 27% of the revenue.
- The District had two revenues that were non-recurring sources of revenue (sale of property \$776,000 and a settlement for back utility taxes of \$265,000).
- Instruction was the major expense category and accounted for 59% to the total.
- Food service revenues exceeded expenses by \$94,244.

Financial Analysis of the District Funds

Changes in Fund Balances	End-of-Year	FY 2003	FY 2002	Amount of Change	% Change
General Fund		\$1,896,444	\$2,194,380	(\$297,936)	-14%
Special Revenue		\$236,540	\$385,131	(\$148,591)	-39%
Capital Projects		\$6,907,979	\$5,879,884	\$1,028,095	17%
Construction		\$1,289,998	\$1,362	\$1,288,636	94614%
Other Governmental Funds		\$1,123,350	\$1,197,891	(\$74,541)	-6%
School Food		\$433,698	\$339,454	\$94,244	28%
Total		\$11,888,009	\$9,998,102	\$1,889,907	19%



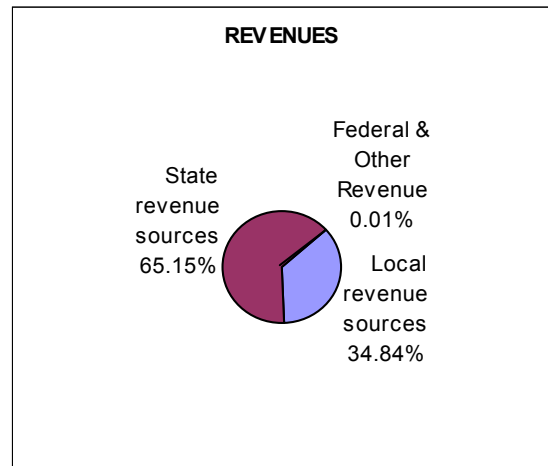
- The General Fund's fund balance showed a negative change of \$297,936. This was primarily the result of the adjustment to the SEEK base after the District had adopted a salary increase for its employees.
- The Special Revenue fund had a negative change of \$148,591. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. The amount of the transfer was \$350,249. Much of this money was unspent at the end of FY 2002.
- Capital Projects shows an increase in fund balance of \$1,028,095 due to receipts from the sale of the old junior high (\$776,000) and a settlement for back utility taxes (\$265,000).
- The Construction fund shows an increase in fund balance of \$1,288,636 due to revenue from the energy conservation project remaining in that fund since the project was not complete.
- Other Governmental funds show a decline of \$74,541. The sick leave trust fund had a large expenditure of \$159,530 for the District's retiring employees.
- The School Food Fund's fund balance had a \$94,244 increase due to increased revenues from participation during, before and after school.

Comments on General Fund Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2003, net of interfund transfers, were \$20,620,160. This is \$3,373,294 more than was budgeted in the final working budget. The primary reason for the difference is that GAAP requires our audit to include state contributions to our employee's retirement, health and life insurance. This is referred to as "On-Behalf" revenue. The District does not get these funds directly and it is not included in our budget. However, it must be in the District's audit. This "On-Behalf" contribution was \$3,101,384 for 2002-2003. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner. Thus, local revenues were slightly higher than budgeted (\$162,580).
- Expenditures were also greater than budgeted primarily because of the inclusion of the in-kind state benefits mentioned above. The \$3,101,384 "On-Behalf" money was shown spent in the different functions (instruction, and support services). Instruction shows \$2,295,185 more spent than budgeted. District support expenditures are \$34,538 and maintenance \$119,527 more than budgeted.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$297,936 less than the prior year. The primary reason for this is the adjustment to the SEEK base funding amount mentioned earlier.
- District administration shows a \$689,867 surplus. The reason is because this is where the district's contingency is budgeted. The contingency is not meant to be expended, but is to be used as the district's beginning balance for next year. The contingency budgeted was actually \$863,801. The contingency was less than budgeted because of the SEEK adjustment.
- The district has a beginning balance for next year (\$1,896,444) greater than the budgeted contingency (\$863,801) because many line items of the budget have a contingency amount added to them.
- The Final Budget and the Original Budget differ primarily because the Original Budget is prepared by the end of February for the next school year and the state had not adopted their budget yet. Because of state budget concerns, the Original Budget had no salary increases. The District adopted to 2.7% pay raise in the Final Budget after the state adopted its budget.

The following tables present a summary of revenue and expense of the General Fund for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 7,185,000
<i>Taxes</i>	
<i>Property</i>	\$ 4,466,615
<i>Motor Vehicle</i>	388,145
<i>Utilities</i>	1,563,697
<i>Other</i>	385,901
<i>Tuition and Fees</i>	93,621
<i>Earnings on Investments</i>	156,998
<i>Other Local Revenue</i>	130,023
State revenue sources	13,433,172
Federal Revenue	1,988
Other Sources	0
Total revenues	\$ 20,620,160

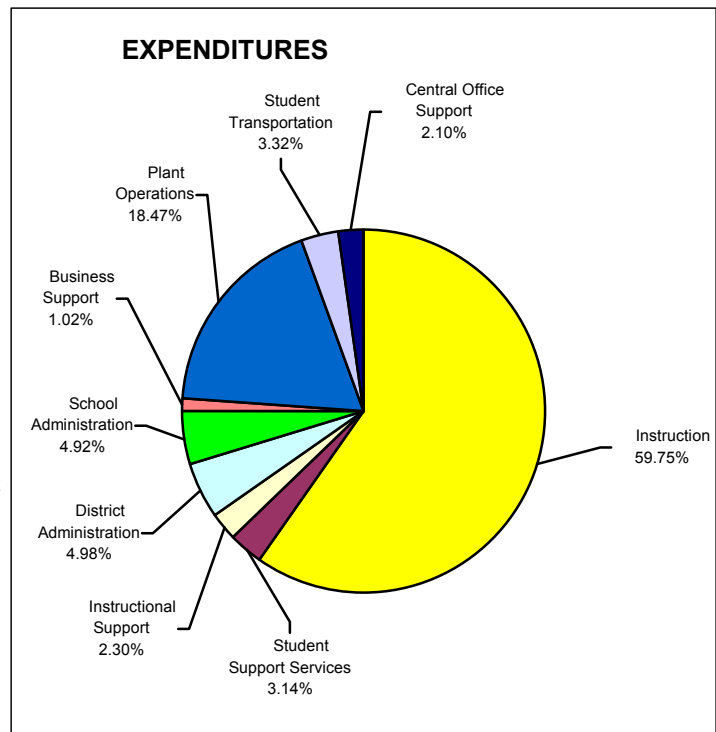


The majority of revenue was derived from state funding (65%) with local revenue sources making up 35% of total revenue.

Expenditures:	
Instruction	\$ 12,483,782
Student Support Services	656,335
Instructional Support	481,070
District Administration	1,039,832
School Administration	1,027,212
Business Support	212,410
Plant Operations	3,858,910
Student Transportation	693,974
Central Office Support	439,102
Total expenses	\$ 20,892,627

Expenditures in Excess of Revenues -(\$ 272,467) *

* The District was mandated by the Kentucky Department of Education to give a 2.7% salary increase with only a .49% increase in SEEK funding.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2003, the district had invested \$27,272,366 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total of assets was \$42,482,041 with accumulated depreciation of \$15,209,675. The district sold property from one closed facility (junior high property on Center Street). The district also closed another facility (elementary center) and is in the planning stages of building a new elementary center to replace two older ones. The district also started a 2.205 million energy conservation and renovation project for most of its other schools.

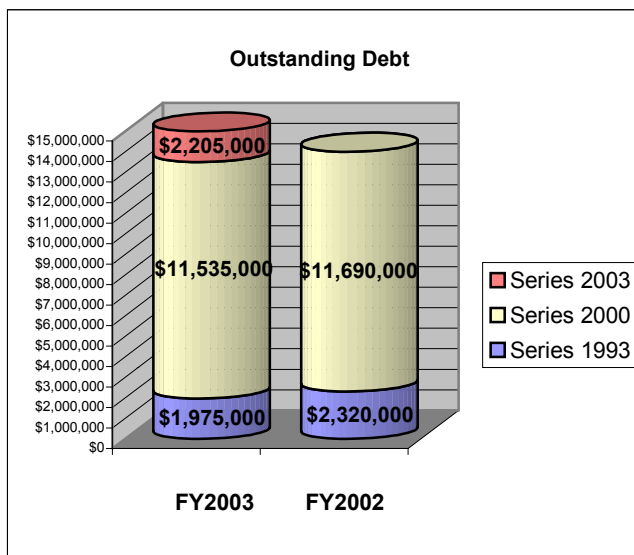
SUMMARY OF CAPITAL ASSETS *

	Governmental Activities	Business-Type Activities	Total
Land	\$ 2,286,401	\$ 0	\$ 2,286,401
Buildings	23,220,569	0	23,220,569
Equipment and Furniture	1,635,502	129,894	1,765,396
Total Assets	\$ 27,142,472	\$ 129,894	\$ 27,272,366

* Note: In subsequent years, this chart will compare last year's Capital Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Long-Term Debt

At year-end the district had \$15.7 million in general obligation bonds outstanding. This was an increase of 12.1 % over last year. The increase was due to the bond issue of \$2.205 million for the energy conservation and renovation project. This project should pay for itself in energy conservation over a 15 year period.



Outstanding Debt at Year End

General Obligation Bonds:		Governmental Activities 2003	Governmental Activities 2002
Series 1993	Re-issue of 1987 issue (1987 Series - High School Renovation)	\$1,975,000	\$2,320,000
Series 2000	Junior High Construction	\$11,535,000	\$11,690,000
Series 2003	Energy Conservation Project for Elementary Schools	\$2,205,000	\$0
TOTAL		\$15,715,000	\$14,010,000

The district plans to issue bonds next year for approximately \$4 million for the construction of a new elementary school.

BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximate 59 % of its new general fund revenue each year through the state funding formula (SEEK). Last year there was an adjustment that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 41 % of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$1,896,444 or 9.4 % of the total general fund budget as a beginning balance for next year.

By law the budget must have a minimum 3 % contingency. The district adopted a budget with \$929,754 in contingency (4.7 %). The beginning cash balance for beginning the fiscal year is \$1,896,444 . Significant Board action that impacts the finances include a 2.7 % pay raise for all employees, additional spending on the English as a Second Language (ESL) program and general fund matching dollars for other grants. Last year \$166,104 was required from the general fund to participate in special revenue funds (grants). The district currently participates in forty-five federal and state grants. The total budget for these grants is \$4,163,427. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$491,648 from other funds. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Bowling Green Independent Schools are to continue to provide modern facilities, continue the excellence with a more diverse population, and maintain the average daily attendance count.

Our district facilities plan calls for reducing the number of Elementary centers from six to four. We made an important step at the end of this year by closing one center. We are building a new center that in essence, replaces two older buildings. We need to plan to do that again within the next five to ten years. This will give the district two new facilities and two older ones. The older ones will be modernized. This modernization is already under way through the performance contract we have with Chevron that makes our facilities much more energy efficient and saves enough money to cover most of the costs. Adhering to the facilities plan is essential in providing excellent learning environments for our students.

The second challenge mentioned above is to maintain the excellence our district has enjoyed with a growing diverse population. Our community has been designated as an immigration center. This presents our district with the challenge of teaching many students who do not speak English. Our English as a second language (ESL) population has grown to 475 or 14 % of the district's enrollment. In continuing to provide services to this population, it is essential that we continue to seek grant funds and lobby the legislature to provide SEEK (state education funding formula) funding for working with this population in the same way that extra funding is provided for special education students.

The third district challenge mentioned is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. There is a very limited number of new homes constructed within the boundaries of the district. Therefore, growth within the district is limited. It is vital that our schools have high attendance percentages and that parents and students continue to chose Bowling Green Independent Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information should be directed to the Danny L. Spillman, Director of Financial Services (270)746-2200, 1211 Center St., Bowling Green, KY, 42101 or e-mail at dspillman@b-g.k12.ky.us.

Basic Financial Statements

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 9,733,292	\$ 173,114	\$ 9,906,406
Investments	1,135,262	0	1,135,262
Accounts receivable:			
Taxes	338,886	0	338,886
Accounts	53,665	0	53,665
Intergovernmental – state	30,184	0	30,184
Intergovernmental – federal	843,256	141,542	984,798
Direct federal	4,801	0	4,801
Inventory	0	28,409	28,409
Non-depreciated capital assets	2,854,946	0	2,854,946
Depreciable capital assets	39,195,168	431,927	39,627,095
Less: accumulated depreciation	(14,907,642)	(302,033)	(15,209,675)
TOTAL ASSETS	39,281,818	472,959	39,754,777
LIABILITIES			
Accounts payable	473,480	18,128	491,608
Accrued liabilities	100,256	0	100,256
Deferred revenue	111,299	0	111,299
Long-term obligations:			
Due within one year:			
Outstanding bonds	570,000	0	570,000
Accrued interest	334,731	0	334,731
Compensated absences	200,000	0	200,000
Other	82,276	0	82,276
Due beyond one year:			
Outstanding bonds	15,145,000	0	15,145,000
Compensated absences	800,376	21,133	821,509
Other	235,339	0	235,339
TOTAL LIABILITIES	18,052,757	39,261	18,092,018

See accompanying notes to the financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS			
Invested in capital assets, net of related debt . . .	11,109,857	129,894	11,239,751
Restricted for:			
Compensated absences	1,123,350	0	1,123,350
Future construction	1,289,998	0	1,289,998
Unrestricted	7,705,856	303,804	8,009,660
TOTAL NET ASSETS	\$ 21,229,061	\$ 433,698	\$ 21,662,759

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS									
		EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL							
GOVERNMENTAL ACTIVITIES															
Instruction	\$	17,682,777	\$	126,010	\$	4,138,955	\$	29,578	\$	(13,388,234)	\$	0	\$	(13,388,234)	
Support Services:															
Student		657,104		0		687		0		(656,417)		0		(656,417)	
Instructional staff		605,475		0		120,468		0		(485,007)		0		(485,007)	
District administration		1,044,457		0		0		0		(1,044,457)		0		(1,044,457)	
School administration		1,052,486		0		0		0		(1,052,486)		0		(1,052,486)	
Business		376,886		0		0		0		(376,886)		0		(376,886)	
Plant operations and maintenance		3,808,691		50,159		0		0		(3,758,532)		0		(3,758,532)	
Student transportation		841,483		0		75,078		0		(766,405)		0		(766,405)	
Central office		371,166		0		0		0		(371,166)		0		(371,166)	
Other		334,856		0		336,003		0		1,147		0		1,147	
Capital outlay		552,395		0		0		714,531		162,136		0		162,136	
Interest on long-term debt		751,184		0		0		157,507		(593,677)		0		(593,677)	
TOTAL GOVERNMENTAL ACTIVITIES		28,078,960		176,169		4,671,191		901,616		(22,329,984)		0		(22,329,984)	

See accompanying notes to the financial statements.

BUSINESS-TYPE ACTIVITIES

Food services	1,770,646	645,746	1,215,876	0	0	90,976	90,976
TOTAL BUSINESS-TYPE ACTIVITIES	1,770,646	645,746	1,215,876	0	0	90,976	90,976
TOTAL SCHOOL DISTRICT	\$ 29,849,606	\$ 821,915	\$ 5,887,067	\$ 901,616	(22,329,984)	90,976	(22,239,008)

GENERAL REVENUES

Taxes:

Property	5,587,073	0	5,587,073
Motor vehicle	484,112	0	484,112
Utilities	1,563,697	0	1,563,697
Other	386,217	0	386,217
State aid	13,433,172	0	13,433,172
Investment earnings	274,607	3,268	277,875
Other	708,531	0	708,531

TOTAL GENERAL REVENUES	22,437,409	3,268	22,440,677
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CHANGE IN NET ASSETS	107,425	94,244	201,669
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NET ASSETS – BEGINNING	21,121,636	339,454	21,461,090
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NET ASSETS – ENDING	\$ 21,229,061	\$ 433,698	\$ 21,662,759
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BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash	\$ 1,364,707	\$ 1,112	\$ 6,908,405	\$ 1,459,068	\$ 0	\$ 9,733,292
Investments	11,912	0	0	0	1,123,350	1,135,262
Accounts receivable:						
Taxes	328,216	0	10,670	0	0	338,886
Accounts	53,665	0	0	0	0	53,665
Intergovernmental – state	0	30,184	0	0	0	30,184
Intergovernmental – federal	0	843,256	0	0	0	843,256
Direct federal	0	4,801	0	0	0	4,801
Due from other funds	491,648	0	0	0	0	491,648
TOTAL ASSETS	\$ 2,250,148	\$ 879,353	\$ 6,919,075	\$ 1,459,068	\$ 1,123,350	\$ 12,630,994

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

Accounts payable	\$ 253,448	\$ 39,866	\$ 11,096	\$ 169,070	\$ 0	\$ 473,480
Accrued liabilities	100,256	0	0	0	0	100,256
Due to other funds	0	491,648	0	0	0	491,648
Deferred revenue	0	111,299	0	0	0	111,299
TOTAL LIABILITIES	353,704	642,813	11,096	169,070	0	1,176,683

FUND BALANCES

Reserved for:

Compensated absences	0	0	0	0	1,123,350	1,123,350
Future construction	0	0	0	1,289,998	0	1,289,998
Encumbrances	141,244	14,449	0	0	0	155,693
Unreserved	1,755,200	222,091	6,907,979	0	0	8,885,270
TOTAL FUND BALANCES	1,896,444	236,540	6,907,979	1,289,998	1,123,350	11,454,311

**TOTAL LIABILITIES AND
FUND BALANCES**

\$ 2,250,148	\$ 879,353	\$ 6,919,075	\$ 1,459,068	\$ 1,123,350	\$ 12,630,994
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BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2003

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 11,454,311

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. The cost of the
assets is \$42,050,114, and the accumulated depreciation is \$14,907,642. 27,142,472

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported as liabilities in the funds. Long-term
liabilities at year-end consist of:

Bonds payable	(15,715,000)
Accrued interest of the bonds	(334,731)
Other debt	(317,615)
Compensated absences	<u>(1,000,376)</u>

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES \$ 21,229,061

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	FSPK FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
From local sources:						
Taxes:						
Property	\$ 4,466,615	\$ 0	\$ 1,120,458	\$ 0	\$ 0	\$ 5,587,073
Motor vehicle	388,145	0	95,967	0	0	484,112
Utilities	1,563,697	0	0	0	0	1,563,697
Other	385,901	0	0	0	0	385,901
Tuition and fees	93,621	0	12,672	0	0	106,293
Earnings on investments	156,998	0	0	26,045	91,880	274,923
Other local revenue	130,023	316	1,041,000	0	0	1,171,339
Revenue from intermediate sources	0	105,139	0	0	0	105,139
Intergovernmental – state	13,433,172	1,728,237	396,171	0	475,867	16,033,447
Intergovernmental – indirect federal	1,988	2,521,306	0	0	0	2,523,294
Intergovernmental – direct federal	0	265,676	0	0	0	265,676
Federal through intermediate sources	0	80,095	0	0	0	80,095
TOTAL REVENUES	20,620,160	4,700,769	2,666,268	26,045	567,747	28,580,989
EXPENDITURES						
Current:						
Instruction	12,483,782	4,342,593	0	0	0	16,826,375

See accompanying notes to the financial statements.

Support services:						
Student	656,335	687	0	0	0	657,022
Instructional staff	481,070	120,468	0	0	0	601,538
District administration	1,039,832	0	0	0	0	1,039,832
School administration	1,027,212	0	0	0	0	1,027,212
Business	212,410	0	0	0	164,476	376,886
Plant operations and maintenance	3,858,910	0	0	0	0	3,858,910
Student transportation	693,974	75,078	0	0	0	769,052
Central office	439,102	0	0	0	0	439,102
Other	0	336,003	0	0	0	336,003
Debt service:						
Principal	0	0	0	0	500,000	500,000
Interest	0	0	0	0	746,112	746,112
Capital outlay:						
Facilities acquisition and construction	0	0	297,016	1,515,266	0	1,812,282
TOTAL EXPENDITURES	20,892,627	4,874,829	297,016	1,515,266	1,410,588	28,990,326
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(272,467)	(174,060)	2,369,252	(1,489,221)	(842,841)	(409,337)
OTHER FINANCING SOURCES (USES)						
Bond proceeds	0	0	0	2,205,000	0	2,205,000
Operating transfers	(25,469)	25,469	(1,341,157)	572,857	768,300	0
TOTAL OTHER FINANCING SOURCES (USES)	(25,469)	25,469	(1,341,157)	2,777,857	768,300	2,205,000
NET CHANGE IN FUND BALANCE	(297,936)	(148,591)	1,028,095	1,288,636	(74,541)	1,795,663
FUND BALANCE – BEGINNING	2,194,380	385,131	5,879,884	1,362	1,197,891	9,658,648
FUND BALANCE – ENDING	\$ 1,896,444	\$ 236,540	\$ 6,907,979	\$ 1,289,998	\$ 1,123,350	\$ 11,454,311

See accompanying notes to the financial statements.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$	1,795,663
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,735,096) exceeds depreciation expense (\$1,382,974) in the period.		352,122
Repayment of bond principal and other debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		624,339
In the statement of activities, certain operating expenses - compensated absences (sick pay and vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation.		(60,023)
Proceeds for sale of assets included in fund statements and used as a component of and the gain on disposal of assets in the statement of activities.		(776,000)
Net gain on disposal of assets shown in the statement of activities and only proceeds for sale of assets shown in the fund statements.		381,396
Bond proceeds included in fund statements reclassified to long-term debt in statement of net assets.		(2,205,000)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds, increased by \$5,072.		(5,072)

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$	<u>107,425</u>
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BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
<hr/>	
ASSETS	
CURRENT ASSETS	
Cash	\$ 173,114
Accounts receivable:	
Intergovernmental – federal	141,542
Inventory	28,409
TOTAL CURRENT ASSETS	<u>343,065</u>
NON-CURRENT ASSETS	
Fixed assets – net	<u>129,894</u>
TOTAL ASSETS	<u><u>\$ 472,959</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 18,128
TOTAL CURRENT LIABILITIES	<u>18,128</u>
LONG-TERM LIABILITIES	
Compensated absences	<u>21,133</u>
TOTAL LIABILITIES	<u>39,261</u>
NET ASSETS	
Invested in capital assets	129,894
Unrestricted	303,804
TOTAL NET ASSETS	<u>433,698</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 472,959</u></u>

See accompanying notes to the financial statements.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 645,746
TOTAL OPERATING REVENUES	645,746
OPERATING EXPENSES	
Salaries and wages	828,960
Contract services	9,528
Materials and supplies	903,071
Other operating expenses	12,703
Depreciation expense	16,384
TOTAL OPERATING EXPENSES	1,770,646
OPERATING LOSS	(1,124,900)
NON-OPERATING REVENUES (EXPENSES)	
State operating grants	166,105
Federal operating grants	979,171
Donated commodities	70,600
Interest revenue	3,268
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,219,144
CHANGE IN NET ASSETS	94,244
TOTAL NET ASSETS – BEGINNING	339,454
TOTAL NET ASSETS – ENDING	\$ 433,698

See accompanying notes to the financial statements.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 645,746
Cash payments to employees for services	(828,960)
Cash payments for contract services	(9,528)
Cash payments to suppliers for goods and services	(869,669)
Cash payments in other operating expenses	(12,703)
NET CASH USED FOR OPERATING ACTIVITIES	(1,075,114)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	1,145,276
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(29,519)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	3,268
NET INCREASE IN CASH AND CASH EQUIVALENTS	43,911
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	129,203
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 173,114

See accompanying notes to the financial statements.

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating loss	\$ (1,124,900)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	16,384
Commodities used	70,600
Changes in assets and liabilities:	
Receivables	(50,195)
Inventories	1,159
Accounts payable	10,569
Compensated absences	1,269
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (1,075,114)</u></u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	<u>AGENCY FUNDS</u>
ASSETS	
ASSETS	
Cash	\$ 275,912
Accounts receivable	<u>924</u>
TOTAL ASSETS	<u>\$ 276,836</u>
LIABILITIES	
LIABILITIES	
Accounts payable	\$ 29,183
Due to student groups	<u>247,653</u>
TOTAL LIABILITIES	<u>\$ 276,836</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Bowling Green Independent Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Bowling Green Independent School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Bowling Green Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization is included in the accompanying financial statements:

Bowling Green Independent School District Finance Corporation — The Bowling Green Independent Board of Education resolved to authorize the establishment of the Bowling Green Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Bowling Green Independent Board of Education also comprise the Corporation's Board of Directors.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

• **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Special Revenue Fund — Sick Leave Trust — The corpus and any earnings of the Trust are restricted for payment of compensated absences as stated in the trust agreement.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost as required by Kentucky law.

• Proprietary Fund Types

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

• **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Cash and Cash Equivalents**

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

● **Investments**

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● **Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE**

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

The District has implemented these standards effective July 1, 2002.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

**NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND
RESTATEMENT OF FUND BALANCE (Continued)**

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General	Special Revenue	FSPK	Construction	Non-Major	Total
Fund equity, June 30, 2002	\$ 2,194,380	\$ 385,131	\$ 5,879,884	\$ 1,362	\$ 1,197,891	\$ 9,658,648
GASB 34 adjustments:						
Capital assets, net of depreciation						26,894,149
Long-term liabilities						(14,161,149)
Accrued compensated absences ...						(940,353)
Accrued interest payable						(329,659)
						<u>\$ 21,121,636</u>

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	School Food Service
Fund equity, June 30, 2002	\$ 501,658
Accrued compensated absences	(19,865)
Change in fixed assets	(142,339)
Adjusted Fund Equity, June 30, 2002	<u>\$ 339,454</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2003, the carrying amounts of the District's deposits were \$10,194,230 and the bank balances were \$11,025,523, which was covered by federal depository insurance or by collateral held by the banks in the District's name.

The carrying amounts are reflected in the financial statements as follows:

Governmental funds	\$ 9,745,204
Proprietary funds	173,114
Fiduciary funds	<u>275,912</u>
	<u>\$ 10,194,230</u>

● **Investments**

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

The District's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH AND INVESTMENTS (Continued)

	Categories			Reported Value
	1	2	3	
Corporate Bonds	\$ 471,336	\$ 0	\$ 0	\$ 471,336
U.S. Government Securities and Agencies	652,014	0	0	652,014
Certificates of Deposit	11,912	0	0	11,912
	<u>\$ 1,135,262</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,135,262</u>

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consist of the following:

Receivable Fund	Payable Fund	Amount
General	Special Revenue	<u>\$ 491,648</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

Capital Cost				
	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 1,893,546	\$ 0	\$ (202,690)	\$ 1,690,856
Construction in progress	0	1,164,090	0	1,164,090
Total Nondepreciable Historical Cost	1,893,546	1,164,090	(202,690)	2,854,946
Capital assets that are depreciated:				
Land improvements	1,213,017	27,072	0	1,240,089
Buildings and improvements	33,678,446	47,952	(1,436,339)	32,290,059
Technology equipment	2,721,574	706,539	(207,861)	3,220,252
Vehicles	1,537,347	0	0	1,537,347
General	831,187	80,248	(4,014)	907,421
Total Depreciable Historical Cost	39,981,571	861,811	(1,648,214)	39,195,168
Less accumulated depreciation for:				
Land improvements	600,021	44,523	0	644,544
Buildings and improvements	10,730,118	763,827	(1,260,365)	10,233,580
Technology equipment	2,003,666	425,602	(192,304)	2,236,964
Vehicles	1,103,154	88,503	0	1,191,657
General	544,009	60,519	(3,631)	600,897
Total Accumulated Depreciation	14,980,968	1,382,974	(1,456,300)	14,907,642
Total Depreciable Historical Cost, Net	25,000,603	(521,163)	(191,914)	24,287,526
Governmental Activities, Capital Assets, Net	\$ 26,894,149	\$ 642,927	\$ (394,604)	\$ 27,142,472

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS (Continued)

	Capital Cost			
	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are depreciated:				
Technology equipment	\$ 0	\$ 1,059	\$ 0	\$ 1,059
General	414,033	28,460	(11,625)	430,868
Total Depreciable Historical Cost	414,033	29,519	(11,625)	431,927
Less accumulated depreciation for:				
Technology equipment	0	159	0	159
General	297,274	16,225	(11,625)	301,874
Total Accumulated Depreciation	297,274	16,384	(11,625)	302,033
Total Depreciable Historical Cost, Net	116,759	13,135	0	129,894
Business-Type Activities, Capital Assets, Net	\$ 116,759	\$ 13,135	\$ 0	\$ 129,894

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,236,988
Support services:	
Student	891
Instruction staff	3,937
District administration	4,926
School administration	27,483
Plant operations and maintenance	32,509
Student transportation	72,431
Central office	3,809
Total Depreciation Expense	<u>\$ 1,382,974</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS

On February 20, 2003, the District issued \$2,205,000 in bonds with an average interest rate of 3 percent to participate in the Guaranteed Energy Savings Project at multiple schools.

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 4,700,000	4.25%—4.75%
2000	11,670,000	5.00%—5.75%
2003	2,205,000	1.25%—4.50%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Bowling Green Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS
(Continued)

Year	Bowling Green Independent School District		School Facility Construction Commission		Total Debt Service
	Interest	Principal	Interest	Principal	
2003—2004	\$ 726,509	\$ 505,133	\$ 92,640	\$ 64,867	\$ 1,389,149
2004—2005	681,362	566,890	89,398	68,110	1,405,760
2005—2006	656,370	593,484	85,992	71,516	1,407,362
2006—2007	630,112	624,908	82,416	75,092	1,412,528
2007—2008	601,718	671,154	78,662	78,846	1,430,380
2008—2009	581,830	692,113	74,620	82,887	1,431,450
2009—2010	548,671	732,865	70,372	87,135	1,439,043
2010—2011	512,619	778,290	65,798	91,710	1,448,417
2011—2012	473,609	818,430	60,938	96,570	1,449,547
2012—2013	431,661	863,215	55,722	101,785	1,452,383
2013—2014	386,352	917,617	50,124	107,383	1,461,476
2014—2015	337,997	971,711	44,218	113,289	1,467,215
2015—2016	286,776	1,025,480	37,988	119,520	1,469,764
2016—2017	232,180	1,093,906	31,414	126,094	1,483,594
2017—2018	172,842	1,156,814	24,322	133,186	1,487,164
2018—2019	114,724	969,155	16,662	140,845	1,241,386
2019—2020	58,998	1,026,057	8,564	148,943	1,242,562
	<u>\$ 7,434,330</u>	<u>\$ 14,007,222</u>	<u>\$ 969,850</u>	<u>\$ 1,707,778</u>	<u>\$ 24,119,180</u>

Changes in long-term obligations are as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003	Amounts Due Within One Year
District debt:					
Compensated absences . . .	\$ 940,353	\$ 258,223	\$ 198,200	\$ 1,000,376	\$ 200,000
Other	151,149	278,087	111,621	317,615	82,276
Bonds	14,010,000	2,205,000	500,000	15,715,000	570,000
	<u>\$ 15,101,502</u>	<u>\$ 2,741,310</u>	<u>\$ 809,821</u>	<u>\$ 17,032,991</u>	<u>\$ 852,276</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 7: PENSION PLANS

Plan Descriptions. The Bowling Green Independent School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2002 and 2001 were \$236,484, \$230,515 and \$234,848, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits for the year ended June 30, 2003 was \$2,958,125 for governmental funds and \$143,258 for proprietary funds.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 8: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 9: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers'

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 10: RISK MANAGEMENT (Continued)

Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11: EXCESS EXPENDITURES OVER
APPROPRIATIONS**

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund	Amount
General Fund	\$ 297,936
Special Revenue	148,591
SEEK Capital Outlay	318,360

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 12: FUND TRANSFERS

Fund transfers for the year ended June 30, 2003 consist of the following:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 25,469
Operating	Capital Outlay	Debt Service	Debt Service	318,360
Operating	FSPK	Debt Service	Debt Service	768,300
Operating	FSPK	Construction	Construction	572,857

Required Supplemental
Information

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2003

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources	\$ 6,773,050	\$ 7,022,420	\$ 7,185,000	\$ 162,580
State programs	9,800,835	10,220,446	13,433,172	3,212,726
Federal programs	4,000	4,000	1,988	(2,012)
TOTAL REVENUES	16,577,885	17,246,866	20,620,160	3,373,294
EXPENDITURES				
Current:				
Instruction	9,848,581	10,188,597	12,483,782	(2,295,185)
Support services:				
Student	635,520	665,808	656,335	9,473
Instructional staff	508,065	487,316	481,070	6,246
District administration	1,579,021	1,729,699	1,039,832	689,867
School administration	1,005,367	992,674	1,027,212	(34,538)
Business	209,955	232,650	212,410	20,240
Plant operations and maintenance	3,591,664	3,739,383	3,858,910	(119,527)
Student transportation	722,131	803,518	693,974	109,544
Central office	427,581	443,696	439,102	4,594
Other	0	300	0	300
TOTAL EXPENDITURES	18,527,885	19,283,641	20,892,627	(1,608,986)

EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(1,950,000)</u>	<u>(2,036,775)</u>	<u>(272,467)</u>	<u>1,764,308</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers	<u>(150,000)</u>	<u>(150,000)</u>	<u>(25,469)</u>	<u>124,531</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(150,000)</u>	<u>(150,000)</u>	<u>(25,469)</u>	<u>124,531</u>
NET CHANGE IN FUND BALANCE	<u>(2,100,000)</u>	<u>(2,186,775)</u>	<u>(297,936)</u>	<u>1,888,839</u>
FUND BALANCES – BEGINNING	<u>2,100,000</u>	<u>2,186,775</u>	<u>2,194,380</u>	<u>7,605</u>
FUND BALANCES – ENDING	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,896,444</u></u>	<u><u>\$ 1,896,444</u></u>

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Inflows/revenues:

Actual amounts (budgetary basis)	\$ 17,662,035
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>2,958,125</u>

Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 20,620,160

Outflows/expenses:

Actual amounts (budgetary basis)	\$ 17,934,502
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts	<u>2,958,125</u>

Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds

\$ 20,892,627

Supplemental Information

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2003

	DEBT SERVICE	SEEK FUND	SICK LEAVE TRUST FUND	TOTAL OTHER GOVERNMENTAL FUNDS
ASSETS				
Investments	\$ 0	\$ 0	\$ 1,123,350	\$ 1,123,350
TOTAL ASSETS	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,123,350</u>	<u>\$ 1,123,350</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES	\$ 0	\$ 0	\$ 0	\$ 0
FUND BALANCES				
Reserved for compensated absences	0	0	1,123,350	1,123,350
TOTAL FUND BALANCES	<u>0</u>	<u>0</u>	<u>1,123,350</u>	<u>1,123,350</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,123,350</u>	<u>\$ 1,123,350</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2003

	DEBT SERVICE	SEEK FUND	SICK LEAVE TRUST FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES				
From local sources:				
Earnings on investments	\$ 56	\$ 0	\$ 91,824	\$ 91,880
Intergovernmental — state	157,507	318,360	0	475,867
TOTAL REVENUES	<u>157,563</u>	<u>318,360</u>	<u>91,824</u>	<u>567,747</u>
EXPENDITURES				
Current:				
Support services:				
Business	0	0	164,476	164,476
Debt service:				
Principal	500,000	0	0	500,000
Interest	746,112	0	0	746,112
TOTAL EXPENDITURES	<u>1,246,112</u>	<u>0</u>	<u>164,476</u>	<u>1,410,588</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(1,088,549)</u>	<u>318,360</u>	<u>(72,652)</u>	<u>(842,841)</u>

OTHER FINANCING SOURCES (USES)

Operating transfers	1,086,660	(318,360)	0	768,300
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TOTAL OTHER FINANCING SOURCES (USES)	<u>1,086,660</u>	<u>(318,360)</u>	<u>0</u>	<u>768,300</u>
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NET CHANGE IN FUND BALANCE	(1,889)	0	(72,652)	(74,541)
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FUND BALANCES — BEGINNING	<u>1,889</u>	<u>0</u>	<u>1,196,002</u>	<u>1,197,891</u>
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FUND BALANCES — ENDING	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,123,350</u></u>	<u><u>\$ 1,123,350</u></u>
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BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL SCHOOL ACTIVITY FUNDS
ALL AGENCY FUNDS
For the Year Ended June 30, 2003

	<u>BALANCE JULY 1, 2002</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2003</u>
ASSETS				
Cash	\$ 276,541	\$ 773,791	\$ 774,420	\$ 275,912
Accounts receivable	1,776	924	1,776	924
TOTAL ASSETS	<u>\$ 278,317</u>	<u>\$ 774,715</u>	<u>\$ 776,196</u>	<u>\$ 276,836</u>
LIABILITIES				
Accounts payable	\$ 11,160	\$ 29,183	\$ 11,160	\$ 29,183
Due to student groups	267,157	745,532	765,036	247,653
TOTAL LIABILITIES	<u>\$ 278,317</u>	<u>\$ 774,715</u>	<u>\$ 776,196</u>	<u>\$ 276,836</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN CASH AND OTHER ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
BOWLING GREEN HIGH SCHOOL
For the Year Ended June 30, 2003

	CASH JULY 1, 2002	ADDITIONS	DEDUCTIONS	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
African-American History	\$ 270	\$ 81	\$ 60	\$ 291	\$ 0	\$ 0	\$ 291
Alumni Association	4,638	1,331	3,332	2,637	0	0	2,637
Annual	6,336	32,034	10,604	27,766	0	20,979	6,787
Art Club	3	0	0	3	0	0	3
Art Department	40	312	352	0	0	0	0
Athletics Fund — CD	40,595	874	10,042	31,427	0	0	31,427
Athletics — General	23,742	35,323	49,435	9,630	599	60	10,169
Athletics — Baseball	43	10,997	7,937	3,103	0	0	3,103
Athletics — Basketball Boys . .	50	21,808	21,858	0	0	0	0
Athletics — Basketball Girls . .	0	14,850	14,850	0	0	0	0
Athletics — Cross Country . . .	0	1,028	1,028	0	0	0	0
Athletics — Football	0	27,676	27,676	0	0	0	0
Athletics — Golf Boys	0	2,166	2,166	0	0	0	0
Athletics — Golf Girls	0	1,986	1,986	0	0	0	0
Athletics — Soccer Boys	0	9,731	9,731	0	0	0	0
Athletics — Soccer Girls	49	4,263	4,312	0	0	0	0
Athletics — Softball	0	8,873	8,873	0	0	0	0
Athletics — Swimming	0	6,786	6,786	0	0	0	0
Athletics — Tennis	0	1,613	1,613	0	0	0	0

Athletics — Track	120	2,590	2,710	0	0	0	0
Athletics — Volleyball	0	6,951	6,951	0	0	0	0
Auto Mechanics	0	1,219	1,209	10	0	0	10
Band	0	1,870	510	1,360	0	0	1,360
Beta	0	1,442	768	674	0	0	674
Beverly Brown Scholarship Fund	1,040	700	750	990	0	0	990
BGIT	4,277	7,096	7,535	3,838	0	0	3,838
Broadcasting	48	5	0	53	0	0	53
Business	596	140	402	334	0	0	334
Carpentry	14	1,298	870	442	0	0	442
Casseroles to Go	0	1,236	1,232	4	0	0	4
Cheerleaders Boys Varsity ...	0	12,001	12,001	0	0	0	0
Cheerleaders Girls Varsity ...	0	1,005	1,005	0	0	0	0
Choir Department	6,901	154,076	160,977	0	0	0	0
Class of 1974 Scholarship Fund	1,000	0	1,000	0	0	0	0
Concessions — Basketball ...	3,350	0	3,350	0	0	0	0
Council for Exceptional Children	225	282	404	103	0	0	103
Crimestoppers	222	0	20	202	0	0	202
Dance Team	779	1,480	1,963	296	0	0	296
DECA	89	4,487	4,576	0	0	0	0
Drama	321	0	40	281	0	0	281
Electronic Office	0	235	45	190	0	0	190
English	412	1,047	1,089	370	0	0	370
Engraving	65	226	231	60	0	0	60
Environmental	665	0	0	665	0	0	665
ESL/Culture Club	94	78	105	67	0	0	67
FACS	247	156	142	261	0	0	261
FBLA	0	3,953	3,953	0	0	0	0
FCA	205	902	957	150	0	0	150
FCCLA	970	14,049	14,940	79	0	0	79
FCCLA — Regional	1,311	1,073	2,384	0	0	0	0

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN CASH AND OTHER ASSETS AND LIABILITIES (CONTINUED)
SCHOOL ACTIVITY FUNDS
BOWLING GREEN HIGH SCHOOL
For the Year Ended June 30, 2003

	CASH JULY 1, 2002	ADDITIONS	DEDUCTIONS	CASH JUNE 30, 2001	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2001
FMD	54	145	115	84	0	0	84
Foreign Language	92	0	21	71	0	0	71
French Club	766	1,268	893	1,141	0	0	1,141
Frisbee Club	0	71	0	71	0	0	71
Future Educators of America ..	0	2,930	2,461	469	0	0	469
GAPP	86	302	388	0	0	0	0
GE Fund Star Program	500	0	464	36	0	0	36
General	10,860	20,048	30,888	20	49	0	69
German	25	41	51	15	0	0	15
Golf Scramble	97	0	0	97	0	0	97
Greenhouse	361	318	278	401	0	0	401
Guidance	1,203	16,344	16,849	698	0	0	698
Hi Y Club	42	3,555	3,597	0	0	0	0
History	438	35	24	449	0	0	449
Hospitality	0	1,471	1,184	287	0	0	287
Humanities	11	0	0	11	0	0	11
Jon Clark Scholarship CD	35,280	1,006	0	36,286	0	0	36,286
Jon Clark Scholarship CD	1,415	2,610	2,000	2,025	0	0	2,025
Junior	7,093	13,660	9,652	11,101	0	0	11,101

JV Academic Team	149	0	20	129	0	0	129
Library	376	538	185	729	0	0	729
Literary	0	48	23	25	0	0	25
Monie Beard Scholarship CD .	15,461	276	610	15,127	0	0	15,127
Monie Beard Scholarship	0	17,000	17,000	0	0	0	0
McGinnis	5,006	0	0	5,006	0	0	5,006
Mountain Bike Club	810	964	1,618	156	0	0	156
Mountain Bike Day Camp	200	0	0	200	0	0	200
National Honor Society	837	1,310	1,257	890	0	0	890
Outdoors	65	15	0	80	0	0	80
Pep	6	0	6	0	0	0	0
Philip Huddleston Scholarship	50	0	50	0	0	0	0
PTO Fund	0	3,245	2,915	330	0	0	330
PRIDE	867	165	56	976	0	0	976
Purple Gem Newspaper	0	4,560	4,560	0	0	0	0
ROTC	2,274	2,090	2,061	2,303	107	0	2,410
ROTC Community Ed Grant . .	0	250	236	14	0	14	0
School Store	190	426	616	0	0	0	0
Science Department	390	380	556	214	0	0	214
Small Engine Repair	67	102	137	32	0	0	32
Social Studies Department ...	0	6,493	4,398	2,095	0	0	2,095
Spanish Club	441	259	252	448	0	0	448
Student Funds	5,405	10,519	13,660	2,264	169	0	2,433
Student Government	5,322	6,717	7,900	4,139	0	0	4,139
VICA	6,767	756	767	6,756	0	0	6,756
Welding	3,933	1,234	2,050	3,117	0	0	3,117
Textbook	225	20,283	19,880	628	0	0	628
WBGIT	1,060	6,743	5,362	2,441	0	267	2,174
Youth Services Center	206	2,066	2,088	184	0	0	184
	<u>\$ 207,147</u>	<u>\$ 551,572</u>	<u>\$ 571,888</u>	<u>\$ 186,831</u>	<u>\$ 924</u>	<u>\$ 21,320</u>	<u>\$ 166,435</u>

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553	0575-01-05	\$ 234,896
National School Summer Meals Program	10.559	0575-00-24	111,405
National School Lunch Program	10.555	0575-01-02	632,870
Empowerment Zone Program	10.772	—	31,687
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555	—	70,600
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,081,458
U.S. DEPARTMENT OF ARMY			
Junior ROTC Program — 2003	12.000	114-042-98	48,187
TOTAL U.S. DEPARTMENT OF ARMY			48,187
ENVIRONMENTAL PROTECTION AGENCY			
Environmental Education Grant	66.951	—	4,658
TOTAL ENVIRONMENTAL PROTECTION AGENCY			4,658
U.S. DEPARTMENT OF EDUCATION			
21st Century — Comm. Learn. Centers Program	84.287	—	21,841
21st Century — Comm. Learn. Centers Program	84.287	—	190,990
Passed-Through State Department of Education:			
Comp. School Reform Demo. Funds	84.332	—	20,981
Comp. School Reform Demo. Funds	84.332	—	141,653
Title I — 2002	84.010	0531-01-01	271,048
Title I — 2003	84.010	0531-02-01	597,156
Migrant Program	84.011	—	15,180
Migrant Program	84.011	—	19,980
Title I — 2002 Neglected Delinquent Children	84.013	—	388
Title I — 2003 Neglected Delinquent Children	84.010	—	5,105
Title I — School Improvement Funds	84.010	—	193,154
Even Start — 2002	84.213	0588-02-02	16,710
Even Start — 2003	84.213	0588-02-02	96,397
Title VI — Innovative Education — 2002	84.298	0533-02-02	851
Title V — Innovative Program Strategies	84.298	—	24,042
IDEA — Part B Special Education — 2002	84.027	0581-01-02	61,872

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
IDEA — Part B Special Education — 2003	84.027	0581-01-02	379,397
IDEA — Silver Grant	84.027	—	5,460
IDEA — Part B — Preschool — 2002	84.173	0587-01-02	18,332
IDEA — Part B — Preschool — 2003	84.173	0587-02-02	44,806
Title III	84.365	—	34,188
GEAR Program	84.334	—	48,409
Vocational Education — Basic — 2003	84.048	5462-01-32	39,999
Technology Literacy Challenge Fund — 2001	84.318	0736-01-02	25,501
Emergency Immigrant Grant	84.162	0539-02-00	5,240
Title VI — Class Size Reduction Program — 2002 . .	84.340	—	443
Title II-A — Teacher Quality	84.367	—	245,843
Title II — Dwight D. Eisenhower PD — 2002	84.281	0530-01-02	10,741
Title IV — Safe & Drug-Free Schools — 2002	84.186	0530-01-02	9,594
Title IV — Safe & Drug-Free Schools — 2003	84.186	0530-01-02	13,680
Title II-D — Technology Education	84.318	0530-01-02	14,866
Elementary School Counseling 2003	84.215	—	177,870
TOTAL U.S. DEPARTMENT OF EDUCATION			2,751,717
U.S. DEPARTMENT OF ADMINISTRATION FOR CHILDREN AND FAMILIES			
Passed-Through State Department of Education:			
Refugee Children	93.576	—	5,761
Refugee Children	93.576	—	18,566
TOTAL U.S. DEPARTMENT OF ADMINISTRATION FOR CHILDREN AND FAMILIES			24,327
U.S. DEPARTMENT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed-Through State Department of Education:			
Service Learning Grant — 2003	94.004	—	6,500
TOTAL U.S. DEPARTMENT OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			6,500
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,916,847

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Bowling Green Independent School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2003

None.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Bowling Green Independent School District
Bowling Green, Kentucky

We have audited the financial statements of ***Bowling Green Independent School District*** (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated September 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Audit Requirements*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to management to the District in a separate letter dated September 2, 2003.

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 2, 2003



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the Board of Education
Bowling Green Independent School District
Bowling Green, Kentucky

● **Compliance**

We have audited the compliance of ***Bowling Green Independent School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB

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Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Bowling Green Independent School District

This report is intended solely for the information and use of the members of the Board, Kentucky State Committee for School District Audits, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 2, 2003

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2003

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553 / 10.555 / 10.559	Child Nutrition Cluster
84.010	Title I
84.027	IDEA — Part B
84.173	IDEA — Preschool

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.



Kentucky State Committee for School District Audits
Members of the Board of Education
Bowling Green Independent School District
Bowling Green, Kentucky

We have audited the financial statements of ***Bowling Green Independent School District*** (the "District") for the year ended June 30, 2003, and have issued our report thereon dated September 2, 2003. Professional standards require that we provide you with the following information related to our audit.

- **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records**

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with

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which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

- **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in *Note 2* to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 as of July 1, 2002. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

- **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you.

- **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

- **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

- **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

- **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of **Bowling Green Independent School District** and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC



Kentucky State Committee for School District Audits
Members of the Board of Education
Bowling Green Independent School District
Bowling Green, Kentucky

In planning and performing our audit of the financial statements of **Bowling Green Independent School District** (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated September 2, 2003 contains our report on the District's internal control. This letter does not affect our report dated September 2, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Holland CPAs, PSC

Bowling Green, Kentucky
September 2, 2003

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BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2003

● **T. C. Cherry Elementary School**

- In our procedures over disbursements, we noted the following items:
 - H Some expenditures did not contain supporting vendor invoices.
 - H Persons requesting purchases did not always sign the purchase requests/orders.
 - H Some invoices did not have purchase orders attached.

We suggest that the activity fund sponsor should sign the purchase request/order and the principal should document the approval by initialing the purchase order. All disbursements should contain approved purchase orders as well as invoices/support to document the purchase.

● **Potter–Gray Elementary School**

- In our procedures over disbursements, we noted the following items:
 - H Persons requesting purchases did not always sign the purchase requests/orders.
 - H Documenting the receipt of merchandise was not performed consistently.

We suggest that the activity fund sponsor should sign the purchase request/order and the principal should document the approval by initialing the purchase order. The person receiving merchandise should document the quantities received as compared to the purchase order.

● **Dishman–McGinnis Elementary School**

- In our procedures over disbursements, we noted the following item:
 - H Persons requesting purchases did not always sign the purchase requests/orders.

We suggest that the activity fund sponsor should sign the purchase request/order and the principal should document the approval by initialing the purchase order.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

● **Bowling Green Junior High School**

- In our procedures over disbursements, we noted the following items:

H Persons requesting purchases did not always sign the purchase requests/orders.

H Documenting the receipt of merchandise was not performed consistently.

We suggest that the activity fund sponsor should sign the purchase request/order and the principal should document the approval by initialing the purchase order. The person receiving merchandise should document the quantities received as compared to the purchase order.

● **Parker–Bennett Elementary School**

- In our procedures, we noted the central fund ledger does not contain the school's investments. The investments should be included in the applicable activity funds. The central fund ledger should contain all of the school's assets.
- In our testing of deposits, we noted deposits are not being made on a timely basis. Large amounts of undeposited cash creates additional risk. We suggest cash receipts of over \$100 should be made on a daily basis.

● **Bowling Green High School**

- In our testing of deposits, we noted deposits are not being made on a timely basis. Large amounts of undeposited cash creates additional risk. We suggest cash receipts of over \$100 should be made on a daily basis.

● **McNeil Elementary School**

- In our procedures over disbursements, we noted the following items:

H Persons requesting purchases did not always sign the purchase requests/orders.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

● **McNeil Elementary School (Continued)**

H Documenting the receipt of merchandise was not performed consistently

H Some expenditures did not contain supporting vendor invoices.

We suggest that the activity fund sponsor should sign the purchase request/order and the principal should document the approval by initialing the purchase order. The person receiving merchandise should document the quantities received as compared to the purchase order. All disbursements should contain invoices/support to document the purchase.

- While reviewing the annual financial report, we noted the central fund ledger did not agree with the annual financial report. The central fund ledger should agree with the annual financial report and the monthly financial reports.
- In our procedures over deposits, we noted the receipts are written when the receipt is entered into the computer system not when the money is received. A receipt should be issued at the time money is received.

● **Food Service**

- While testing the eligibility of children receiving free and reduced lunch, we noted a list was not maintained of students who received free and reduced lunches. We suggest that a list be printed at the end of each year in order to document the children receiving free and reduced lunches.

● **District Office**

- While reviewing payroll controls, we noted that one individual has controls over most of the payroll functions. As a safeguard payroll should be reviewed by someone outside of the payroll department. We recommend that someone other than a payroll department employee should review monthly the payroll register before checks are distributed.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S RESPONSE TO AUDITORS
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2003

DISTRICT WIDE

The District will perform a full and thorough Red Book training for all secretaries, principals and selected central office personnel.

T.C. CHERRY ELEMENTARY SCHOOL

Management will review procedures for proper authorization of purchases and payment of disbursements with the principal and the staff. Audit findings will be part of the principal's evaluation.

POTTER - GRAY ELEMENTARY SCHOOL

Management will review procedures for proper authorization of purchases and payment of disbursements with the principal and the staff. Audit findings will be part of the principal's evaluation.

DISHMAN – McGINNIS ELEMENTARY SCHOOL

Management will review procedures for proper authorization of purchases and payment of disbursements with the principal and the staff. Audit findings will be part of the principal's evaluation.

BOWLING GREEN JUNIOR HIGH SCHOOL

Management will review procedures for proper authorization of purchases and payment of disbursements with the principal and the staff. Audit findings will be part of the principal's evaluation.

PARKER – BENNETT ELEMENTARY SCHOOL

The school's investments are reported on a manual report submitted to the central office every month. We will find a way to incorporate into the STI accounting program.

BOWLING GREEN HIGH SCHOOL

Due to absences of key personnel occasionally deposits were not made timely, however the funds were kept in a secure locked drawer. We will review our procedures and find a remedy for missing links in our internal control chain.

BOWLING GREEN INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S RESPONSE TO AUDITORS
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2003

McNEILL ELEMENTARY SCHOOL

Management will review procedures for proper authorization of purchases and payment of disbursements with the principal and the staff. The central fund ledger was correct at year-end but changed after year-end due to the way the software handles outstanding checks. Receipts are made when money is received, however the secretary was not numbering the receipts and recording the receipt numbers in the accounting software. Receipts are now properly numbered and the software is set to automatically record the sequential numbers. Audit findings will be part of the principal's evaluation.

FOOD SERVICE

Evidently when the state program is rolled to the new year you cannot produce reports from last year. The report was either not printed or misplaced. The oversight will not be repeated.

DISTRICT OFFICE

Management will evaluate our options for a cost effective way to address this deficiency in our control system without compromising the completeness, timeliness, and correctness of other operations.
